



Office of Inspector General

FY 2003 Work Plan

Table of Contents

INTRODUCTION	I
OPERATIONS	1
Contract Monitoring – Audits of Selected Program Offices and External Organizations.....	2
Review of Monitoring of Debt Collection Agency Contractors	2
Review of the Department's Allocation of Common Support Expenses	3
Review of the Audit Follow-Up Process – External Audits	3
Integration of Grants and Program Office Functions.....	4
SYSTEMS	6
SERVICE CONTINUITY.....	7
Service Continuity at ED: Business and Systems Considerations.....	7
FEDERAL STUDENT AID INFORMATION TECHNOLOGY SYSTEMS.....	7
Audit of FSA's Oracle Federal Financials Development and Implementation	7
Review of FSA's Common Origination and Disbursement System	8
INFORMATION TECHNOLOGY MANAGEMENT	9
Implementation of Electronic Signatures.....	9
Review of the Department's Capital Planning and Investment Process.....	9
SYSTEMS SECURITY	10
Protection of ED's Critical Cyber Infrastructure	10
The Department of Education's Implementation of GISRA/FISMA	11
ANALYSIS & INSPECTIONS	13
Review of Performance Assessment Rating Tool (PART) Process.....	14
Reviews of the Department's Strategic Management of Human Capital.....	14
Review of the Department's Security Initiatives	15
Disclosure of Consumer Information – Annual Security Reports	15
Federal Work Study Program – Community Service Requirement	16
Review of Department Management Challenges	17
Monitoring the Transition to Teaching Program.....	17
Review of Management Controls Governing Discretionary Grant Program Changes	18
Discretionary Grant Closeouts	18
Workers' Compensation Review.....	19
NON-FEDERAL AUDIT QUALITY.....	20
Preparation and Issuance of Audit Guidance	21
Quality Reviews of Audits	21
Technical Assistance / Cognizant Agency for Audit Functions.....	22
Special Project – Non-Federal Audit	22
FINANCIAL MANAGEMENT	23
Department-Wide Financial Statement Audit	24
Federal Student Aid Financial Audit	25
Compliance with Appropriation Law	26
Reconciliation of Principal Office Records to ED's Central Automated Processing System	26
INVESTIGATION SERVICES	28
INSTITUTIONAL FRAUD.....	29
Postsecondary Education	29
Federal Family Education Loan Servicing and Collections Activities	30

RECIPIENT FRAUD.....	30
Support Priority Domestic Agenda Item.....	30
Federal Family Education Loan Activity Involving False Claims of Enrollment	30
Pell Recipients	31
Financial Aid Preparers/Clients	31
FSA Liaison and Outreach	31
INTEGRITY ACTIVITIES.....	32
Recent Investigations.....	32
Ongoing Investigations	32
DEPARTMENTAL AID	33
Grants	33
Contracting.....	33
COMPUTER RELATED INVESTIGATION ACTIVITIES.....	33
Electronic Government	33
Network Intrusion	34
STATE & LOCAL PROGRAMS	35
ELEMENTARY AND SECONDARY PROGRAMS.....	36
Title I Allocations	36
Title I Funds Set Aside for District-Wide Activities	36
SPECIAL POPULATIONS.....	37
Audit of the Cash Management of the Special Education Program, Part B Funds by the District of Columbia Public Schools	37
Migrant Education Program Allocation Decisions.....	38
Accountability for Results for Title I Special Populations	38
Audit of Puerto Rico Department of Education's (PRDE) Administration of the IDEA, Part B Special Education Program.....	39
OTHER ELEMENTARY AND SECONDARY PROGRAMS.....	40
Charter School Access to Federal Funds	40
21 st Century Community Learning Centers	40
HIGHER EDUCATION PROGRAMS.....	41
Evaluation of Whether TRIO Projects Are Serving the Required Numbers of Students	41
Audit of FIPSE Congressionally Directed Grants (OPE Higher Education Program)	41
ADULT AND VOCATIONAL EDUCATION PROGRAMS.....	42
Coordination of Perkins III with the Workforce Investment Act	42
Third-Party Cooperative Agreements under the State Vocational Rehabilitation Services Program...	43
Puerto Rico Vocational Rehabilitation Program – Expenditure of Funds.....	44
GOVERNMENT PERFORMANCE AND RESULTS ACT	44
Discretionary Grants Compliance with GPRA	45
Perkins III Performance Data.....	45
CONTRACT AND GRANT ADMINISTRATION.....	46
Restricted Indirect Cost Rates	46
Monitoring of Grant Awards Lapsed Funds by the Department.....	46
Review of Puerto Rico Department of Education's (PRDE) Controls Over Property Purchased With Federal Funds.....	47
STATE AND LOCAL FINANCIAL MANAGEMENT.....	48
Accounting for Drug Control Funds.....	48
Pacific Islands.....	48
FEDERAL STUDENT AID PROGRAMS	49
INSTITUTIONAL AUDITS.....	50
Selected Postsecondary Institutions.....	50
GUARANTY AGENCIES.....	50
Monitoring of Guaranty Agency Operating and Federal Fund Trends.....	50
Recall of Federal Funds Held by Guaranty Agencies.....	51
LENDERS/SERVICES	52

Due Diligence by FFEL Lenders in Collecting Loans.....	52
DISTANCE LEARNING	52
Distance Education Demonstration Program.....	52
DEFAULT MANAGEMENT	53
Definition Change of Default from 180 to 270 Days.....	53
FSA CONTRACTOR REVIEWS.....	54
Selected Federal Student Aid Contractors	54
Guaranty Agency Collection Servicer Reviews	54
PROGRAM INTEGRITY.....	55
Case Management and Oversight’s Review of Postsecondary Institutions	55
PLUS Loan Discharges	56
Professional Judgment.....	56
Address Match of FSA Recipients	57
Citizenship Matches.....	57
Citizenship of Parents Who Receive PLUS Loans.....	58
DATA MINING.....	58
Improper Payments in the FSA Programs	58
Effectiveness of NSLDS Data Entry Edits	59
Controls Over FAFSAs	59
Comparison of FFEL and FAFSA Data	60
APPENDIX.....	61

Introduction

This Office of Inspector General (OIG) Work Plan serves as a guide for the allocation of OIG resources for fiscal year 2003. Our planned work reflects suggestions from the OIG, the Department of Education (Department or ED), and Congress. While the Work Plan provides a framework for OIG work, we retain the flexibility to divert resources to national priorities as they arise.

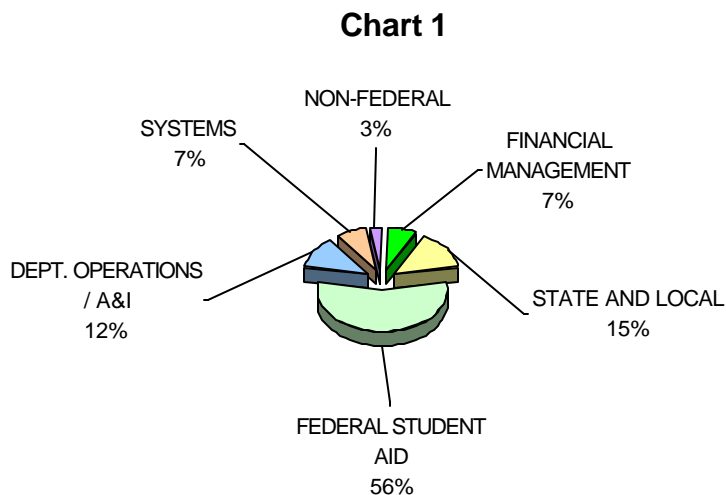
The Work Plan is organized by the Department's program and operation areas and the corresponding OIG work groups responsible for these areas. Projects are also arranged into more specific categories under each program or operation area.

The Plan also reflects the Department's and OIG's strategic goals. In addition to these goals, some projects reflect goals/issues from:

- The President's Management Agenda,
- The Management Challenges of the Department, and
- The Secretary's Blueprint for Management Excellence.

Each project in the Work Plan lists the applicable goals/issues associated with that project. We have included copies of each of these goals/issues in the Appendix for reference. As indicated in the Work Plan, a majority of our projects support goal six of the Department's Strategic Plan, which focuses on establishing management excellence.

Chart 1 projects how OIG staff time will be allocated among the Department's program and operation areas.



The Work Plan is guided by the OIG mission statement:

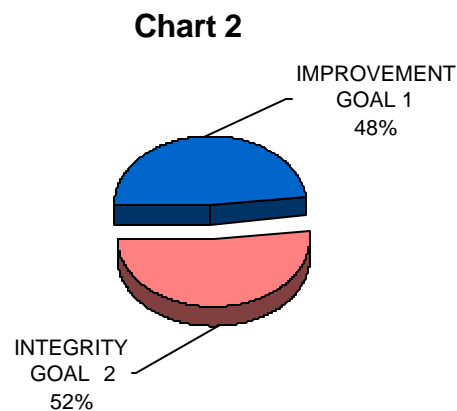
To promote the efficiency, effectiveness, and integrity of the Department's programs and operations, we conduct independent and objective audits, investigations, inspections, and other activities.

This mission is accomplished by providing independent and objective assistance to the Congress and the Secretary in assuring continuous improvement in program delivery, effectiveness, and integrity.

To achieve our mission, we have three strategic goals:

1. To improve the Department's programs and operations.
2. To protect the integrity of the Department's programs and operations.
3. To ensure quality and excellence in our organization.

Projects in the Work Plan focus on the first two goals of improvement and integrity. Chart 2 illustrates the allocation of resources to achieve these two strategic goals.



The Work Plan also focuses on the requirements of the Government Performance and Results Act of 1993 (GPRA). GPRA requires each agency to submit a Performance Report to the Congress and the Nation on its progress toward achieving its goals and objectives. For each project in this Work Plan, we will determine whether there are established GPRA goals and indicators relevant to the objectives and scope of our work. If such GPRA goals and indicators are present, we will evaluate them. Our work will also consider the absence of goals and indicators and, if appropriate, make recommendations for their inclusion.

OPERATIONS

Contract Monitoring – Audits of Selected Program Offices and External Organizations

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 4**

ED OIG has issued 14 internal (including 10 action memoranda) and 11 external audits related to contract monitoring from FY 1998 to date. These audits included findings in several general areas relating to cost terms, invoice approval and payment, contract changes and modifications, key personnel and government property. As of April 2001, the Department had over \$4.3 billion in active contracts.

We will continue our efforts to perform reviews of the process used by the Department to monitor contracts. We will focus on how the Department identifies high-risk contracts and the process used for monitoring those high-risk contracts. We will also perform audits at selected contractors.

This project focuses on OIG's action item responsibility under the Department's Strategic Plan to review the Department's contract monitoring process and evaluate its ability to identify and monitor high-risk contracts.

Anticipated Objectives:

1. Evaluate the Department's contract monitoring process for identifying and monitoring high-risk contracts.
2. Identify high-risk contracts for the purpose of performing compliance and incurred cost audits at applicable contractors.

Review of Monitoring of Debt Collection Agency Contractors

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objectives: 6.1 and 6.4**
- **Blueprint Goals: 1 and 2**
- **Department Challenges Issue: 4**
- **President's Management Agenda Issue: 9**

FSA's Debt Collection Service (DCS) has contracts with approximately a dozen different firms. In recent years, audits and investigations have found problems with a few of the

contractors not appropriately performing their responsibilities. This review will be an overall assessment of the monitoring of collection agency contractors by DCS.

Anticipated Objectives:

1. Determine the effectiveness of FSA monitoring activities for collection agency contractors.
2. Evaluate performance of selected contractors, especially with respect to funds collected/remitted to the Department and payments to the contractor, to determine whether performance is in accordance with contract terms.

Review of the Department's Allocation of Common Support Expenses

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 3**

Principal offices are allocated common support expenses. These expenses include operations of the mailroom, network support, and personnel support. In prior fiscal years, common support experienced a surplus, and funds were returned to the principal offices at the end of the fiscal year. Expenses allocated from common support can represent a significant portion of an office's budget and return of funds at the end of the fiscal year can result in ineffective use of resources.

Anticipated Objectives:

1. Evaluate the Department's methods for allocating common support expenses to principal offices.
2. Evaluate the Department's process for ensuring allocations are periodically evaluated for appropriateness and that excess funds are returned to the principal offices in a timely manner.

Review of the Audit Follow-Up Process – External Audits

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 3**

Audit follow-up includes reaching a management decision concerning the corrective action to be taken on report recommendations and completing the agreed-upon corrective action. This process is applicable to recommendations contained in external and internal audit reports issued by the OIG, as well as reports prepared by non-Federal auditors. OIG conducted an audit of the follow-up process for internal audit reports in FY 2001, identifying weaknesses with regard to corrective actions not always being completed as reported, action officials not certifying corrective actions were implemented, and principal offices not having complete records of corrective actions taken. This review will focus on the process for external audits.

Anticipated Objectives:

1. Evaluate the Department's process for resolving and closing external audits.
2. Evaluate actions taken by principal offices to ensure external entities are implementing corrective actions.
3. Identify potential external entities for follow-up audits.

Integration of Grants and Program Office Functions

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 3**

In October 1996, Grants Officers and their associated responsibility for the administration and award of discretionary grants were transferred from OCFO to the various program offices. Currently, these responsibilities are assigned to Program Specialists and other administrative staff who, previously, were primarily responsible for the programmatic aspects of the management and oversight of funded projects. In the past, program offices were responsible for recommending to OCFO which applicants should be awarded funds and how much each should receive. Now, these offices are also responsible for the award of grants, the approval of changes in the funded projects, and their closeout procedures.

Anticipated Objectives:

1. Determine if the Department has established internal controls over the above-referenced Grants Officer responsibilities that are consistent with the Federal Managers Financial Integrity Act of 1982 and the Segregation of Duties Standards in "Standards for Internal Control in the Federal Government" issued by the General Accounting Office.

2. Determine if program offices have carried out their Grants Officer responsibilities in a manner consistent with laws and regulations.

SYSTEMS

Service Continuity

Service Continuity at ED: Business and Systems Considerations

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objective: 6.3**
- **Department Challenges Issue: 9**

This review will be conducted as a follow-up on the FY2002 System Service Continuity review, which focuses on FSA systems and in a limited way on OCFO. It is imperative that data and systems that are essential to the Department's ability to conduct business be adequately protected and that reliable provisions exist for the continuation of these systems and the availability of this data in the event of terrorist attack, natural disaster, or other threat/event. The Department has promised implementation of the Regional Technology Support Center (RTSC) in Atlanta as an alternate processing facility for non-FSA systems by late summer 2002. Furthermore, and in compliance with various directives, the agency must ensure its ability to continue its operations and the delivery of mission critical services to the public.

Anticipated Objectives:

1. Determine whether the Department has established viable continuation of operations plans for its business processes.
2. Determine whether select non-FSA Department systems (and data) are protected commensurate with risk in terms of ensuring service continuity and contingency planning, and whether adequate tests and exercises have been performed to ensure the viability of systems service continuity and contingency plans.
3. Determine whether the RTSC facility provides adequate capacity as an alternate processing facility for ED's non-FSA needs.

Federal Student Aid Information Technology Systems

Audit of FSA's Oracle Federal Financials Development and Implementation

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objectives: 6.1 and 6.3**
- **Department Challenges Issues: 1, 3, and 6**

The Systems Internal Audit Team has released two prior reports; "Audit of ED's Implementation of FMSS Oracle Federal Financials Phase I, ACN A11-B0003" and

“ED’s Implementation of FMSS Oracle Federal Financials Phase II and III, ACN A11-C0007,” on the Department’s development efforts for a new financial management system. This audit is focusing on FSA’s implementation of a separate Oracle Federal Financials system, to include both a review of the security and other system controls as well as overall Oracle Federal Financials program management. We also plan to look at FSA’s and the Department’s operation and maintenance of two separate financial management systems. This work will continue into FY2003.

Anticipated Objective:

1. Our survey objective is to evaluate select areas of the implementation and operation of FSA’s Oracle Federal financials, including a review of: the overall status of Oracle Financials development and implementation; the status of interfaces—what past problems were experienced, how the Oracle system is planned to improve upon past problems, and what current problems/concerns exist; security of FSA’s implementation of Oracle Financials; and program management of the Oracle Federal Financials system.

Review of FSA’s Common Origination and Disbursement System

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objectives: 6.1, 6.3, and 6.4**
- **Department Challenges Issue: 10**

Under the HEA amendments of 1998, Congress established FSA as a PBO, and required that the PBO make improvements to the systems supporting student financial assistance programs under HEA. Since then, FSA has developed and is implementing its “modernization blueprint” in stages. One of FSA’s major system improvements within its modernization blueprint is the development of the Common Origination and Disbursement System (CODS) to replace the Recipient Financial Management System and the Direct Loan Origination System with an integrated system. The intent of CODS was to develop a single system and common process/record for origination, disbursement and changes, with Web access, to decrease the costs and difficulties associated with separate systems and data. The system was implemented in April 2002.

Anticipated Objectives:

1. Perform a post-implementation systems review of CODS and how it has been implemented to meet user requirements and utilize modern technology to solve past problems.
2. Analyze how FSA has developed CODS within its long-term modernization goals and sequencing plan, and how additional system improvements will follow from CODS.

Information Technology Management

Implementation of Electronic Signatures

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objectives: 6.3 and 6.4**
- **Department Challenges Issues: 2 and 7**
- **President's Management Agenda Issue: 4**

The Government Paperwork Elimination Act (GPEA) encourages automation of business processes, where practicable, to improve electronic government, and discussed use of electronic signature or other forms of verifying the identity of users of electronic government systems. The Electronic Signatures in Global and National Commerce Act gives electronic signatures legal authority. As part of its GPEA and overall automation efforts, the Department plans to implement electronic signatures as it continues to automate its business processes, including many additional electronic signature applications immediately prior to GPEA's September 30, 2003 deadline. The integrity of the Department's programs depends on assuring that its electronic signature implementations adequately validate the identities of recipients and provide protection from fraud, and include appropriate computer security and records management procedures to safeguard electronic records created during loan, grant, and contract transactions.

Anticipated Objectives:

1. Evaluate how the Department is implementing appropriate electronic authentication procedures for loans, grants, and procurement funds.
2. For selected programs, evaluate how the Department has established adequate internal controls and computer security strategies to ensure that computer systems employing electronic signatures adequately protect the programs from fraud, waste, and abuse.

Review of the Department's Capital Planning and Investment Process

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objectives: 6.1, 6.3, and 6.5**
- **Department Challenges Issues: 7 and 10**
- **President's Management Agenda Issue: 3**

Under the Clinger-Cohen Act, Federal Agencies and Departments are required to link IT investments with business processes, and evaluate the funding requests for each IT investment proposal against the potential benefits. The Department has recently revised its Capital Investment Planning and Investment Process, to include an Investment Review Board chaired by the Deputy Secretary, to make final decisions on IT investment proposals, and a Planning and Investment Review Working Group chaired by the Chief Information Officer to evaluate IT investment proposals and make recommendations to the Investment Review Board. FSA has maintained a separate capital planning and investment review process for its own systems.

Anticipated Objectives:

1. Evaluate the adequacy of the capital planning and investment control processes adopted by the Department/FSA.
2. Evaluate the integration of the capital planning and investment control process with the enterprise architecture.

Systems Security

Protection of ED's Critical Cyber Infrastructure

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.3**
- **Department Challenges Issue: 2**

In 1998, President Clinton issued Presidential Decision Directive (PDD) 63 to provide for a national effort to assure the security of the nation's critical infrastructures. The Directive required that a Critical Infrastructure Protection (CIP) Plan be developed by each agency within 180 days. By May 2003, the United States is to achieve and maintain the ongoing ability to protect our nation's critical infrastructures. On October 16, 2001, President Bush signed Executive Order 13231 on Critical Infrastructure Protection in the Information Age, reiterating the importance of securing cyber assets. In 2000, the President's Council for Integrity and Efficiency (PCIE) Audit Committee initiated a government-wide audit of the nation's CIP Program, planning four phases of review to address planning and implementation activities, respectively for cyber and non-cyber assets. OIG participated in the first review phase and issued a report on the Department's status in September 2000. PCIE has initiated a review of the implementation of protection measures for critical cyber assets, and OIG has agreed to participate in this review.

Anticipated Objectives:

1. Review adequacy of planning and assessment activities for protecting critical infrastructures through a brief review of corrective actions taken in the areas of: a) agency plans, b) asset identification, and c) vulnerability assessments.
2. Review adequacy of implementation activities for protecting critical, cyber-based infrastructure assets, focusing on: a) risk mitigation, b) emergency management, c) interagency coordination, d) resource and organization requirements, and e) recruitment, education and awareness.

The Department of Education's Implementation of GISRA/FISMA

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.3**
- **Department Challenges Issue: 2**

The Fiscal Year 2001 Defense Authorization Act (P.L. 106-398), including Title X, Subtitle G, "Government Information Security Reform Act," requires the OIG to perform an annual independent evaluation of the Department's information security program, plans and practices. Although the law will sunset in October 2002, it will likely be either extended or replaced by the Federal Information Security Management Act (FISMA), which also requires the OIG to perform annual independent evaluations of the agency-wide security program. Our initial audit results revealed that the Department is in the early stages of developing and implementing an agency-wide information security program as required by law. In addition, we discovered significant deficiencies in the following security program areas: 1) security awareness and technical training; 2) incident response and reporting; 3) security life cycle management; 4) security of contractor provided services; and 5) performance results of the principal offices' information security practices.

Anticipated Objectives:

1. Determine whether the Department is in compliance with the statutory requirements of GISRA/FISMA.
2. Monitor the development and implementation of the Department's agency-wide information security plans, program and practices. Determine whether components of the security program are meeting applicable OMB and National Institute of Standards and Technology requirements.
3. Determine whether the Department's corrective actions effectively mitigate security weaknesses identified in prior OIG/GAO audits and other independent evaluations.

ANALYSIS & INSPECTIONS

Review of Performance Assessment Rating Tool (PART) Process

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objective: 6.5**

As part of future budget processes, OMB is developing common measures to assess government programs. It is expected that future budget decisions will be tied to evidence of program performance and effectiveness. OMB has designed methodologies to evaluate program performance, which are known as the Performance Assessment Rating Tools (PART). To keep its evaluation focused, OMB has selected a number of programs to be evaluated for the FY 2004 process, and plans on evaluating additional programs in the future. Because of the OIG oversight role, OMB believes Inspectors General can help ensure the validity of agency program assessments.

Anticipated Objectives:

1. Assist OMB in evaluating the PART methodologies.
2. Help identify Department programs to be rated and participate in the rating process to ensure the Department properly applies the OMB assessment tools and that resulting ratings are reasonable.
3. Where the Department assesses programs similar or common to those assessed in other agencies, assist in validating the Department's methodologies and results to compare its programs to other agencies and ensure compatibility of assessments.

Reviews of the Department's Strategic Management of Human Capital

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 3**
- **President's Management Agenda Issues: 1 and 2**

The OIG will conduct reviews to identify any needed improvements in the delivery of selected Departmental operations, functions, support services, and activities in the human capital area. This will be accomplished by the analysis and evaluation of existing data, work processes, policies and procedures, projects or operations. Projects will include reviewing the Department's progress in (1) developing the Workforce and Restructuring Plan, Improving Program Performance Outcomes Plan, and other related plans; (2) identifying and analyzing core competencies of Department positions; (3) identifying the essential steps in the post-selection process for new hires; and (4) developing its approach

for the re-engineering of the human capital area, including identifying any OPM restrictions.

Anticipated Objective:

1. Will be developed after specific inspections are selected for completion.

Review of the Department's Security Initiatives

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

The OIG will conduct ongoing reviews of the Department's security initiatives. Analyses and evaluations will be performed to identify needed improvements in areas where the Department has made changes, or undertaken new procedures and/or policies. At times, it may be necessary to conduct inspections to properly review affected areas of security. This will be accomplished by reviewing existing data, conducting interviews, and doing practical on-site inspection of facilities. Projects will include reviews of the Department's security plan and the Department's assessment of safety and security. OIG involvement will identify any areas for improvement including appropriate recommendations.

Anticipated Objective:

1. Will be developed after specific inspections are selected for completion.

Disclosure of Consumer Information – Annual Security Reports

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goals and Objectives: 1.1, 1.3, 3.1 and 5.2**
- **Department Challenges Issue: 11**
- **Blueprint Goal: 5**

Under Section 485(f) of the Higher Education Act, schools are required to publish and distribute an annual security report. More specifically, Department regulations state that all Title IV schools must prepare an annual security report that contains, at a minimum, 1) the crime statistics for murder, and 2) a statement of current campus policies regarding procedures for students and others to report criminal action or other emergencies occurring on campus. The annual security report must be distributed to all enrolled students and current employees by October 1 of each year. Department regulations also state that an institution must report to the campus community in a manner that is timely

and will aid in the prevention of similar criminal activity. A copy of the report must be sent to the Department.

Anticipated Objectives:

1. Determine if schools had procedures to distribute annual security reports to all enrolled students and current employees in the metro area (VA, MD, and DC) by October 1 of 2000 and 2001.
2. Determine if schools in the metro area submitted the statistical section of their annual security report to the Department for the years 2000 and 2001.
3. Determine if schools in the metro area have procedures that provide timely warnings to the campus community of any occurrences of crimes reported to campus security authorities or local police.

Federal Work Study Program – Community Service Requirement

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goals and Objectives: 1.1, 3.2, 5.2, 5.3, 6.1, 6.4, and 6.5**
- **Blueprint Goal: 2**
- **Department Challenges Issue: 6**
- **President's Management Agenda Issue: 3**

The Federal Work Study (FWS) Program began as a part of the Economic Opportunity Act of 1964 and was subsequently folded into the Higher Education Act of 1965. The FWS program allows undergraduate and graduate students to work part-time to help pay for the cost of their education. The current FWS budget is over one billion dollars with up to 75 percent of the funds paid to students coming from the government. Federal regulations require that institutions participating in the FWS program allocate at least 7 percent of all FWS jobs to community service jobs. The only exception is if the Department grants a waiver to a school. Participating institutions are required to certify annually that they meet this requirement. Another provision of the FWS Program mandates that all schools receiving FWS money employ at least one student in a reading tutor project or family literacy project.

Anticipated Objectives:

1. Determine the actual percentage of FWS funds that metro area (VA, MD, and DC) institutions allocated toward community service jobs during the 2000-2001 school year.
2. Determine the type and nature of metro area institutions' FWS community service activities.

3. Determine if institutions had at least one student in the FWS program working in a reading tutor project or family literacy project for the 2000-2001 academic year.
4. Determine the level of FSA's monitoring of the FWS program.

Review of Department Management Challenges

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goals and Objectives: 6.1, 6.2, 6.3, 6.4, and 6.5**

The Reports Consolidation Act requires each OIG to report annually on the top management and performance challenges facing each agency and assess the agency's progress in addressing those challenges. The OIG must give the report to the agency at least 30 days in advance. The agency may comment but cannot modify the report. Both the IG report and the agency comments should be included in the consolidated report that is due 150 days after the close of the fiscal year.

Anticipated Objective:

1. Identify areas to be included in the list of challenges.

Monitoring the Transition to Teaching Program

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 2.4**

The Transition to Teaching Program provides grants for the recruitment, training, and placement of highly qualified mid-career professionals and recent college graduates as teachers in "high-need" schools.

Participants in the program are required to teach in a "high-need" school for at least three years.

Anticipated Objective:

1. Determine what Department procedures are in place to ensure participant compliance with the program's three-year requirement.

Review of Management Controls Governing Discretionary Grant Program Changes

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 5**
- **Department Challenges Issue: 11**

The Department currently allows grantees certain program changes without prior program officer approval (EDGAR Part 75). Known as the “expanded authorities” regulations, these amendments were designed to allow greater flexibility in the administration of grant operations for both grantees and ED personnel (e.g., program officers). However, certain areas governing grantee operations still require prior program officer approval (see EDGAR Section 74.25). Our review will look at these controls and other Department policies covering prior approval procedures.

Objectives:

1. Determine what changes to an existing grant (in addition to changes permitted in EDGAR part 75) require prior ED approval.
2. Determine what policies, guidelines, or procedures are available and used by program officers in determining if a change will alter the scope and objectives as described in the grantee’s original grant application.
3. Determine whether ED personnel are implementing these policies, guidelines, or procedures when approving changes to existing grants.

Discretionary Grant Closeouts

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 5**

Since 1996, Principal Offices are responsible for the closeout of grants. Discretionary grant teams must take action to ensure timely closeout and retirement of expired grant files to the Federal Records Center. Teams need to determine if all applicable administrative actions, financial obligations, and approved project objectives have been completed and if the grant is ready for closeout procedures. This process of review and reconciliation should be completed within 12 months following the grant’s performance period end date.

Anticipated Objectives:

1. Determine whether discretionary grants are being properly closed based upon guidelines established by the Grants, Policy, and Oversight Staff (GPOS).

Workers' Compensation Review

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

The Federal Employees' Compensation Act authorizes compensation benefits to Federal civilian employees of the United States for disability due to personal injury or disease sustained while in the performance of their duty. The U.S. Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP) is responsible for implementing and administering this Act.

Federal regulations require employers to submit to OWCP a "Federal Employee's Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation" form for an injured employee if the injury will likely result in medical expenses, further treatment, job absence, future disability, permanent impairment, or continuation of pay. Continuation of pay is the employing agency's continuance of employee pay when the employee is not working due to job-related injury. OWCP guidance reiterates the employer's responsibility to submit notification of injury to OWCP (OWCP Publication CA-810).

Applicable policy mandates that, when an employee is injured, DOL will pay benefits and payments for the injured employee. On a yearly basis, DOL furnishes the Department a statement of the total cost of benefits and payments it made during the preceding year, charging back those expenses. The Department then includes in its next annual budget request an amount equal to the costs delineated by DOL. Thus, if the Department does not bill DOL for the costs incurred in treating job-related injured employees (through on or off-site facilities), it may not be adequately reimbursed for those costs.

Anticipated Objectives:

1. Identify if the Department is operating a workers' compensation program in accordance with applicable standards to include reporting to DOL.
2. Identify any irregularities in the Department's workers' compensation program and make recommendations as appropriate to ensure the Department's program is operated in accordance with applicable standards.

NON-FEDERAL AUDIT QUALITY

Preparation and Issuance of Audit Guidance

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

The Office of Inspector General (OIG) publishes audit guides relating to audits of ED's Student Financial Assistance Programs administered by proprietary postsecondary institutions, lenders and guaranty agencies, and their servicers. OIG also coordinates with and assists ED program officials and the U.S. Office of Management and Budget (OMB) in updating the OMB Single Audit Compliance Supplement, with respect to ED programs. By doing this, we ensure that auditors have up-to-date and relevant guidance they need to properly audit ED's programs.

In FY 2003, we plan to issue new editions of two Audit Guides:

"Compliance Audits for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program"

and

"Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers."

Quality Reviews of Audits

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

We will conduct a program of Quality Control Reviews (QCRs) of approximately 100 non-Federal audits each fiscal year, including OMB Circular A-133 audits and audits of proprietary schools, lenders and guaranty agencies (and their servicers). When appropriate, we will make referrals to state licensing boards and professional organizations for disciplinary actions and initiate suspension and debarment actions.

To ensure that our Quality Control Reviews address particular audit quality concerns of FSA, we coordinate with FSA in selecting audits for quality review.

Technical Assistance / Cognizant Agency for Audit Functions

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

We respond to questions from non-federal auditors, program officials and others concerning audit requirements pertaining to audits of ED programs. We coordinate with ED's Office of the Chief Financial Officer (OCFO), FSA and program offices to provide technical assistance needed by them arising from audit resolution activities. We maintain a website which provides copies of audit guides issued by our office, and links to sites with other guidance pertinent to non-federal audits.

ED has been designated as Cognizant Agency for Audit (CAA) for 303 entities, pursuant to OMB Circular A-133, which implements the Single Audit Act. OIG fulfills several key CAA responsibilities, including audit quality review and provision of technical assistance to the entities and their auditors. OIG also coordinates with the other ED offices that perform CAA responsibilities, including ED's OCFO.

Special Project – Non-Federal Audit

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

We plan to analyze the Single Audit Clearinghouse database to identify entities where indications are that the Department's programs are not being audited because auditors are not correctly applying the minimum "percentage of coverage" requirements of OMB Circular A-133. We will then follow-up with the auditors of the identified entities to seek compliance with audit coverage requirements.

FINANCIAL MANAGEMENT

Department-Wide Financial Statement Audit

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **President's Management Agenda Issue: 3**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 1**

The Government Management Reform Act of 1994 requires an annual audit of the Department's financial statements be issued by the statutory report date of March 1. OMB Bulletin No. 01-09, expedites reporting requiring performance and accountability reports to be submitted by February 1. Audits of the Department's fiscal year 1999, 2000, and 2001 financial statements resulted in a qualified opinion. They were also the first audits to be issued by the statutory report date.

The Chief Financial Officers Act indicates that financial statements shall be audited in accordance with applicable generally accepted government auditing standards by the agency's Inspector General or by an independent external auditor, as determined by the Inspector General. The Office of Inspector General has determined that it is more efficient and effective to have an Independent Public Accountant (IPA) perform the financial audit, an area where they have substantial expertise and flexibility and allow OIG staff to focus on other important issues. The OIG will oversee the work performed by the Independent Public Accountant.

Anticipated Objectives:

1. Provide an opinion on whether the Department-wide financial statements are fairly presented in all material respects.
2. Report on internal controls that are intended to ensure that transactions are properly recorded to permit the preparation of reliable financial statements; maintain accountability for safeguarding of assets; and ensure that data supporting performance measures are properly recorded.
3. Report on compliance with laws and regulations that could have a direct and material effect on the financial statements.
4. Report on controls issues identified during the Department's financial audit that warrants management's attention but are not required to be reported in the three primary audit reports.
5. Report differences between the agency's summarized Federal Agencies' Centralized Trial-Balance System (FACTS) data and the agency's audited consolidated financial statements submitted to OMB in the agreed upon procedures report to the General Accounting Office, Treasury's Financial Management Service and OMB.

6. Report on differences between the Departments reconciliation of intergovernmental transactions with its trading partners and the Department's audited financial statements.

Federal Student Aid Financial Audit

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 1**
- **President's Management Agenda Issue: 3**

The 1998 Higher Education Act Amendments established Federal Student Aid (FSA), formerly Student Financial Assistance, as a performance-based organizations responsible for managing the operational functions supporting the programs authorized under Title IV of the Act. To fulfill its annual reporting requirements, FSA financial statements will be audited each year in compliance with the Government Management Reform Act of 1994 and the Chief Financial Officer's Act of 1990.

The Government Management Reform Act of 1994 requires the annual audit of financial statements be issued by the statutory report date of March 1. OMB's expedited reporting requires performance and accountability reports to be submitted by February 1. The Chief Financial Officers Act indicates that financial statements shall be audited in accordance with applicable generally accepted government auditing standards by the agency's Inspector General or by an independent external auditor, as determined by the Inspector General. The Inspector General has determined that it is more efficient and effective to have an Independent Public Accountant perform the FSA financial audit. The OIG will oversee the work performed by the Independent Public Accountant.

Anticipated Objectives:

1. Provide an opinion on whether FSA's financial statements are fairly presented in all material respects.
2. Report on internal controls that are intended to ensure that transactions are properly recorded to permit the preparation of reliable financial statements; maintain accountability for safeguarding of assets; and ensure that data supporting performance measures are properly recorded.
3. Report on compliance with laws and regulations that could have a direct and material effect on the financial statements.

4. Report on control issues identified during the FSA financial audit that warrants management's attention but are not required to be reported in the three primary audit reports.

Compliance with Appropriation Law

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 1**
- **President's Management Agenda Issue: 3**

Oversight of our contract with an IPA for the annual financial statement audit has revealed a payment practice within the Contracts Purchasing Office that pays for current year contracted work with prior year(s) OIG expired annual appropriations. This practice is inconsistent with GAO guidance on applying appropriations law with regard to the time of availability of appropriations.

Anticipated Objectives:

1. Determine the extent expired annual appropriations are used to pay for future year contracting needs
2. Determine whether there has been a violation of the Anti-Deficiency Act or other relevant appropriations law.
3. Review internal controls surrounding the authorization of contract payments from specific appropriations.

Reconciliation of Principal Office Records to ED's Central Automated Processing System

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 1**
- **President's Management Agenda Issue: 3**

In May 1998, a core financial system known as the U.S. Department of Education Central Automated Processing System (EDCAPS) was deployed. EDCAPS is a financial management system designed to integrate the Department's financial processing, including: financial management; contracts and purchasing; grant administration; and payment management.

EDCAPS integrates three components: Grant Administration and Payment System (GAPS); Oracle Financials (FMSS); and Contracts and Purchasing Support System (CPSS), into a single system.

Many of the Principal Offices maintain records separate from EDCAPS on expenditures and obligations in order to track budget execution. Each of the Principal Offices that maintains separate records has created its own system and procedures for reconciling with EDCAPS.

Management is responsible for establishing and maintaining internal controls. The objective of internal control is to provide management with reasonable, but not absolute, assurance that: assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and recorded properly; and data that support reported performance measures are properly recorded and accounted for.

Anticipated Objective:

1. Determine if Principal Office internal controls ensure that their financial activity is accurately recorded in EDCAPS throughout the year.

INVESTIGATION SERVICES

Our investigative goal is to deter fraud through the investigation and prosecution of fraud and corruption relating to Departmental programs and operations; the detection of vulnerabilities to fraud, waste and abuse; and the education of employees, educational institutional officials, and recipients of federal funds. Additionally, our work covers allegations of misconduct and abuse by agency employees that have a detrimental effect on Departmental operations. Investigation Services operates the OIG's fraud hotline (800-MIS-USED) to provide citizens a venue to report fraud in Department programs and operations. Over the years, our investigations have identified trends or types of fraud in the areas listed below. Through these investigations, Investigative Services will contribute to the promotion of a culture of accountability and assist the Department toward achieving the goals of the Presidents Management Agenda in eliminating fraud and error in student aid programs.

Institutional Fraud

Postsecondary Education

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goals and Objectives: 5.2 and 6.4**

We will continue to devote investigative resources to institutions that participate in the federal student aid programs. Historically, we have devoted a significant portion of our resources to investigating alleged fraud in this arena. As a result, we continue to identify certain trends in institutional fraud that include:

- Failure to refund tuition money;
- Falsification of documents for eligibility purposes;
- Ineligible locations and programs;
- Embezzlement of federal funds;
- Falsified student aid applications.

Investigation of alleged fraud by postsecondary institutions will help identify programmatic weaknesses needing correction, and will assist the Department toward its goal of removing federal student aid programs from GAO's High Risk list.

Federal Family Education Loan Servicing and Collections Activities

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objectives: 6.1 and 6.4**

We will continue to investigate allegations of fraudulent activity on the part of private companies under contract to collect upon and service Federal Family Education loans.

In the past several years we have conducted a total of 10 investigations in this area. These investigations resulted in 4 convictions, 3 indictments, and the civil recovery of over \$17.5 million. We are continuing to pursue investigations of loan servicing entities that allegedly engage in fraudulent due diligence and collection activity, and anticipate future work in this area.

Recipient Fraud

We will continue to devote investigative efforts in the area of fraud by student beneficiaries/recipients. For example, we investigate allegations of false identity and identity theft related to fraudulent claims for aid. This type of fraud can also include alleged fraud activities directed by officials and employees of educational institutions. We will continue to pursue allegations of recipient fraud involving foreign institutions, which generally involve significant amounts of federal funds obtained by single beneficiaries.

Support Priority Domestic Agenda Item

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objectives: 6.1 and 6.4**

In the wake of the September 11, 2001 terrorist attacks, we have been assisting the FBI with data collection efforts related to this issue because some of the terrorists had attended Title IV approved institutions and had obtained aid; and we have access to investigative resources to gather significant information supportive of the FBI's terrorist investigation activities.

Federal Family Education Loan Activity Involving False Claims of Enrollment

Goals/Issues Addressed:

- **OIG Goal 2**
- **Department Goal and Objective: 6.4**

We will continue to investigate allegations of fraudulent activity affecting the Federal Family Education Loan Program (FFELP). Our investigative work has identified vulnerabilities to fraud

schemes by individuals who falsely claim enrollment in foreign schools. We have initiated over 65 criminal investigations involving allegations of false claims of enrollment at foreign schools. To date, these investigations have resulted in 35 prosecutions, \$2.7 million in court ordered restitution, and prevented the issuance of \$1.6 million in fraudulent loans.

Pell Recipients

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objectives: 6.1 and 6.4**

We will investigate activities to identify student beneficiaries and parents who allegedly report their income or assets fraudulently on their Free Applications for Federal Student Aid (FAFSA).

Financial Aid Preparers/Clients

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objectives: 6.1 and 6.4**

We expect to continue our investigative efforts in the area of preparer/client fraud. In the past several years we have conducted a total of 260 investigations concerning individuals working as financial aid preparers or who were clients of these preparers. These consultant/preparers usually advise their clients, for a fee, to submit false income, and other information to the Department in an effort to obtain federal student aid for which they are not entitled. One of our largest investigative efforts in this area resulted in the indictment of 26 preparers and their clients who allegedly conspired to illegally obtain federal student aid funds totaling more than \$2.8 million.

FSA Liaison and Outreach

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objectives: 6.1 and 6.4**

We plan to establish and conduct liaison efforts with Federal Student Aid to assist in training, education, and awareness programs about fraud in Title IV programs. We expect this activity to assist FSA in its compliance activities and in the identification of fraudulent practices by institutions or individuals. This type of activity will assist the Department toward its goal of removing federal student aid programs from GAO's High Risk List.

Integrity Activities

We conduct investigations relating to state and local entities, contractor activities, CPA firms, and internal Departmental employees and operations. These investigations assist the Department in achieving a culture of accountability through the detection and prevention of fraud and abuse.

Recent Investigations

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objective: 6.1**

We recently obtained 16 convictions in a widespread conspiracy scheme to defraud the Department of equipment and overtime pay to contractors valued at over \$1.3 million. Seven of the 16 individuals convicted were Department employees. To date we have recovered approximately \$350,000 in stolen equipment.

In another significant investigation we have obtained the indictments of 17 individuals, including Puerto Rico's former Secretary and Deputy Secretary of Education in a large-scale extortion conspiracy to defraud the Department of approximately \$4.3 million through a contractor kick-back scheme. Three conspirators, to include the former PR Education Secretary, have pled guilty and \$2.9 million in criminally obtained cash and property has been returned to the US Government.

Finally, we recently concluded an investigation of widespread employee abuse of the Transit Benefits program, which has resulted in disciplinary actions against 16 employees.

Ongoing Investigations

We have ongoing matters related to other Department operations, programs and employees that have resulted in successful prosecutions, but the investigations are still ongoing. Matters under investigation include misuse of the Government purchase card, misuse of the Government travel card, and manipulation of Department equipment inventories for personal gain. We will continue to do work in these and other areas as needed.

Departmental Aid

Grants

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal: 6.1**

We will continue to pursue investigations of allegations involving institutions and organizations that receive grants from the Department. We recently obtained indictments against one Community Based Organization (CBO) and the senior operating officers of another CBO that were alleged to have fraudulently obtained \$3.2 million in Adult Education Program funds.

In another significant matter we obtained an indictment of three individuals that participated in a scheme to divert approximately \$1.9 million in Impact Aid funds. The Department has successfully recovered approximately \$1.7 million based on our efforts.

Contracting

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal: 6.1**

The Department contracts about \$1 billion annually for goods and services. The OIG has begun an institutional effort to examine the contracting of the Department to ensure that the process is free from fraudulent, wasteful or abusive conduct and that taxpayer dollars are appropriately accounted for. As a part of the effort we will work with other OIG components to assist them in the identification of potentially fraudulent conduct. Investigative activities will focus on acquisition management, contractors and procurement practices. Some examples of potential contracting improprieties that we may investigate include cost mischarging, defective pricing, bribery, kickbacks, product substitution, and collusion.

Computer Related Investigation Activities

Electronic Government

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objectives: 6.1, 6.3 and 6.4**

We will pursue investigations of allegations involving persons or entities that use electronic data systems to commit fraud related to the electronic federal student aid application process. This type of fraudulent activity can involve electronic identity theft and false electronic signatures.

We will also continue to examine the ongoing investigative challenges involving fraud in a paperless environment.

Network Intrusion

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objective: 6.3**

We will continue to coordinate with the Department's Office of the Chief Information Officer (OCIO) to investigate instances of computer intrusions. We will provide technical expertise to Department officials regarding computer intrusions. Our network intrusion efforts are accomplished in coordination with the FBI and the Federal Computer Incident Response Center (FedCIRC).

STATE & LOCAL PROGRAMS

Elementary and Secondary Programs

Title I Allocations

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 1.1**

The No Child Left Behind Act (NCLB), Title I, Part A Improving Basic Programs Operated by Local Educational Agencies (LEAs) provides supplemental education funding to LEAs and schools, especially in high-poverty areas, to improve education for children at risk of failing to achieve high standards. The primary purpose of Title I is to ensure that all children have a fair, equal and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging state academic achievement standards and state academic assessments. Title I funds are allocated to districts and schools in accordance with their number of low-income children. The appropriation for Title I, Part A for FY 2002 was \$10.3 billion.

Recent studies have indicated that some districts may not be calculating the allocation of Title I funds to schools in accordance with the law. There are indications that low-poverty schools in some cases are receiving larger per-pupil allocations than higher poverty schools and that some school districts may be violating the rank order requirement by skipping some higher poverty schools.

Anticipated Objective:

1. Determine if LEAs are allocating Title I funds in accordance with the law.

Title I Funds Set Aside for District-Wide Activities

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 1.1**

The Title I, Part A program, authorized under the NCLB, provides formula grants through state educational agencies (SEAs) to local educational agencies (LEAs) to assist low-achieving children in meeting the challenging state curriculum and student performance standards in core academic subjects. LEAs use low-income data to rank their school attendance areas. The LEAs then determine a per pupil allocation for each school attendance area. Prior to calculating the per-pupil amount for public and non-public school children from low-income families, LEAs may set aside Title I funds for district-wide programs and activities. Section 1120(a)(3) of the NCLB requires that educational services

and other benefits for non-public school participants be equitable in comparison to such services and benefits for public school participants. If public school children benefit from funds set aside, the non-public school children must receive equitable services.

Recent Office of Elementary and Secondary Education reviews disclosed that LEAs did not ensure that non-public school participants benefited from funds the LEAs reserved for district-wide activities.

Anticipated Objectives:

1. Determine what percentage of Title I funding LEAs reserve for district-wide activities prior to determining a per-pupil allocation for targeted assistance and school-wide programs.
2. Determine what programs and activities LEAs are funding with the set-asides and whether these programs and activities are allowable under the law.
3. Determine if LEAs consult with non-public school officials prior to making decisions concerning Title I services provided from set-aside funding.

Special Populations

Audit of the Cash Management of the Special Education Program, Part B Funds by the District of Columbia Public Schools

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objectives: 1.1 and 1.2**

In 1998, District of Columbia Public Schools (DCPS) was found not to be substantially compliant with the special education grant requirements [Part B of the Individuals with Disabilities Education Act (IDEA)] and therefore was required to enter into a three year Compliance Agreement (the Agreement) with ED. The Agreement covered DCPS' compliance with 11 goals and objectives relative to Part B requirements. However, the Agreement does not cover the related fiscal requirements for special education program funding. Additionally, no other review of DCPS' special education program covered the fiscal requirements and program expenditures. The Office of Special Education Program (OSEP) has done extensive monitoring of the Agreement. The Special Master who was appointed by the U.S. District Court believes that DCPS has made progress relative to transportation costs.

Anticipated Objectives:

1. Determine if special education program funds are used in accordance with fiscal requirements.

2. Determine if the special education expenditures made with federal funds are reasonable, allocable and allowable program expenditures.

Migrant Education Program Allocation Decisions

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 1.1**

The Migrant Education Program (Title I, Part C, NCLB) provides funds to states to establish or improve programs that address the needs of migratory children and youth and ensure that they have the opportunity to meet the same state standards that all children are expected to meet. States must give priority for services to migratory children and youth who are failing—or most at risk of failing—to meet the state’s content and performance standards and whose education has been interrupted during the regular school year.

Federal funds are allocated by formula to state education agencies, based on each state’s per pupil expenditure and the number of migratory children, ages 3 through 21, residing within the state. Funding for fiscal year 2002 was \$396 million. States have great flexibility in determining the best way to distribute federal funds. Funds may be retained at the state level to administer the program and provide services directly and/or subgranted to local operating agencies, such as regional offices or school districts. In exercising this flexibility, states must ensure that federal funds are used in ways that best address the needs and service priorities for migrant children on a statewide basis.

Anticipated Objectives:

1. Document states’ decision process for allocating migrant education program funds, including decisions related to state-level versus subgrantee delivery of services and identification and recruitment efforts.
2. Determine the extent that states have established and implemented appropriate procedures to, on a statewide basis, identify and target services to “priority” children and ensure that services are made available to these children before providing services to other migrant children.

Accountability for Results for Title I Special Populations

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 1.1**

The NCLB, Title I, Part A provides funds to states to establish or improve programs that help disadvantaged children and youth and ensure that these students have the opportunity to meet the same state content and performance standards that all children are expected to

meet. Student achievement on state assessments represents the primary criterion to measure school success. State assessment systems must enable results to be disaggregated for certain special populations, including students with limited English proficiency, and students with disabilities. Anecdotal evidence suggests that not all students are assessed and, when they are tested, their results may not be disaggregated from all other students or included in accountability indexes.

Anticipated Objectives:

1. Determine the extent that states are assessing special populations—including those with limited English proficiency, and students with disabilities—and holding local education agencies and schools accountable for these students' performance.
2. Determine how these students' performance data are used at all levels—state, local, school, and classroom—to improve program operation and service delivery.
3. Evaluate the objectives, performance indicators, and measures related to the academic achievement of special populations that are included in the Department's annual performance report.

Audit of Puerto Rico Department of Education's (PRDE) Administration of the IDEA, Part B Special Education Program

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objectives: 2.1, 2.2, and 2.3**

PRDE's ability to manage federal awards has been questioned consistently in single audit reports. Recent OIG work has also revealed serious irregularities in PRDE's administration of ED programs. Based on the audit work we have done and the recent PRDE issues regarding money being diverted for other purposes, we believe similar situations may be occurring with the Special Education Program. In addition, we have received numerous complaints from parents of children in need of special education who claim that services, such as transportation and therapy, are not being provided to the children. We also have received complaints regarding lack of trained personnel, poor quality of education for the children, and poor classroom facilities. As a result, it is our primary objective to determine whether PRDE is properly administering special education funds and whether the children are receiving services.

Anticipated Objectives:

1. Determine if funds are being utilized in accordance with the program's fiscal requirements, laws and regulations.
2. Determine if activities/services are being provided to the children in accordance with the students' Individualized Education Plans.

Other Elementary and Secondary Programs

Charter School Access to Federal Funds

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 1.3**

The No Child Left Behind Act (NCLB), Title V, § 5203, requires states to take measures to ensure every charter school receives the federal funds for which it is eligible, including the first year of operation. In cases where payments to a charter school are made on the basis of estimated or projected enrollment data, the measures must include provision for adjusting the allocations based on actual data when the charter school opens or expands.

Anticipated Objectives:

1. Determine what measures ED has taken to ensure charter schools can access federal funds.
2. Determine whether states and selected LEAs within those states provide new and expanding charter schools with timely and meaningful information about the federal programs in which the schools may be eligible to participate.
3. Determine whether states and selected LEAs within those states have implemented procedures to ensure new or expanding charter schools are allocated the proportionate amount of Title I and IDEA funds for which these schools are eligible within mandated timeframes.
4. Determine whether new and expanding charter schools in the selected states were allocated the Title I and IDEA funds for which they were eligible.

21st Century Community Learning Centers

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 3.2**

The 21st Century Community Learning Centers program is authorized under Title IV, Part B of the NCLB. The 21st Century Community Learning Center program provides grant funds to rural and inner-city public schools, or consortia of such schools, to enable them to provide expanded learning opportunities for participating children in a safe, drug-free, and supervised environment. Public schools must administer the grant, and 21st Century Community Learning Centers must be located in a public school. Applicants must demonstrate that they meet the statutory program purpose as being either a rural or inner city school or a consortium of those schools. There are 900 grantees including some 3,600

centers in the 21st Century Community Learning Center program. For fiscal year 2002, the Department allocated \$1 billion for these programs. For fiscal year 2003, the Department has requested funding for another \$1 billion.

Anticipated Objective:

1. Determine if funds at selected grantees are used in accordance with applicable laws and regulations.

Higher Education Programs

Evaluation of Whether TRIO Projects Are Serving the Required Numbers of Students

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 5.1**

A common finding from audits and program reviews conducted over the last two years is that TRIO grantees could not provide documentation to show that they served as many students as they were funded to serve, even though their annual reports to the Department stated otherwise. One problematic result of under-serving client populations is that scarce federal resources do not provide the benefits to students that Congress intended. Another is that the practice contributes to the unreliability of data that are used by the Department for evaluating the performance of individual projects and for providing nationwide program performance information to Congress, as required under the Government Performance and Results Act.

Anticipated Objective:

1. Determine whether grantees are accurately reporting client population served.

Audit of FIPSE Congressionally Directed Grants (OPE Higher Education Program)

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 5.2**

The Fund for the Improvement of Postsecondary Education (FIPSE) has as its objective: “To provide for innovative programs that improve access to and the quality of postsecondary education.” For fiscal year 2002, the Department allocated \$180.9 million, which includes \$149.7 million for congressionally directed awards. For fiscal year 2003, the Department has requested funding of \$39.1 million. The 2003 request does not include funds for projects earmarked in 2002.

In recent years, Congress has elected to direct by law the awarding of grants to specific entities, under the FIPSE program. For these directed FIPSE grants, the grantees do not compete, nor are the grants awarded per a formula. Instead, the law specifically identifies to whom the grants are to be awarded. It is unclear what process is used by the Congress to determine which entities are identified to be named to receive the grants, or how the grant amounts are arrived at.

The program is authorized by the Higher Education Act of 1965, as amended, Title VII Part B, Public Law 105-277, 20 U.S.C. 1135-1135a-3. Eligible applicants include a full range of providers of postsecondary educational services including but not limited to: two and four-year colleges and universities, community organizations, libraries, museums, consortia, student groups, and local government agencies.

Anticipated Objective:

1. To determine whether Directed FIPSE Grant funds are properly expended for allowable purposes, and that funded activities are indeed carried out.

Adult and Vocational Education Programs

Coordination of Perkins III with the Workforce Investment Act

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 2.3**

The Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins III) requires the state agencies that administer its programs to adopt procedures to ensure coordination with the activities administered by State Workforce Investment Boards. It specifically requires these agencies to partner with Workforce Investment Act (WIA) Boards in establishing “one-stop” systems for delivering vocational and technical education services. To foster this coordination, Perkins III and WIA permit states to apply for funding by means of “Unified State Plans,” which cover the programs and activities authorized under both Acts, in lieu of the separate State Plans they have had to file previously. The Adult Education and Family Literacy Act (Title II of WIA) is also administered by the Office of Adult and Vocational Education (OVAE) and will be included in this review.

Anticipated Objectives:

1. Determine if Perkins III and Adult Education state plans outline strategies for implementing the new coordinated approach for delivering services, including strategies to partner with WIA Boards in the establishment of one-stop centers.
2. Determine if states are implementing the strategies they have outlined in their approved State Plans.

3. Identify any obstacles state agencies are encountering in their coordination efforts (e.g., a lack of common definitions between ED and the Department of Labor) and determine what can be done to overcome them.
4. Identify any states that are using Unified State Plans to apply for funding and determine if it has improved coordination across programs in those states.
5. Determine if the unified planning guidance produced by the federal partner agencies was helpful to states in understanding the connection between federal programs and how planning for these programs could be coordinated.

Third-Party Cooperative Agreements under the State Vocational Rehabilitation Services Program

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 5.5**

The Rehabilitation Act of 1973, as amended (the Act), Title I, Parts A and B, Sections 100-111 (29 U.S.C. §§ 720-731) authorizes Vocational Rehabilitation Grants to states. Under the Act, federal funds are distributed (78.7 percent federal and 21.3 percent state) based on population weighted by per capita income. Funds are available for the fiscal year appropriated and may remain available for an additional year if the matching requirement is met in the year of appropriation. Title 34 Code of Federal Regulations (CFR) § 361 governs the State Vocational Rehabilitation (VR) Services Program.

During recent audit work, we learned of issues related to third-party cooperative agreements. States' VR services agencies enter into third-party cooperative agreements to raise the required matching funds for the VR programs. The agencies continue these third-party agreements with the same entity for the same purpose year after year. Title 34 CFR § 361.28 requires that these cooperative agreements include either new services that have a VR-related focus or existing services that have been modified, adapted, expanded, or reconfigured to have a VR-related focus.

Anticipated Objectives:

1. Determine if third-party cooperative agreements result in state VR programs that serve fewer clients at an increased cost.
2. Determine if third-party cooperative agreements with other state agencies supplant state funds, further reducing the VR funds available to serve eligible clients.
3. Determine if third-party cooperative agreements include new services that have a VR-related focus or existing services that have been modified, adapted, expanded, or reconfigured to have a VR-related focus.

Puerto Rico Vocational Rehabilitation Program – Expenditure of Funds**Goals/Issues Addressed:**

- **OIG Goal: 2**
- **Department Goal and Objective: 5.5**

Vocational Rehabilitation State Grants provide grants to support a wide range of services designed to help individuals with disabilities prepare for and engage in gainful employment consistent with their strengths, resources, priorities, concerns, abilities, and capabilities. Funds are distributed to states and territories based on a formula that takes into account population and per capita income to cover the cost of direct services and program administration.

As a condition for the receipt of Federal funds, designated state agencies are responsible for determining the use and disbursement of the program funds in accordance with federal regulations. Of the \$2.4 billion distributed to the states and territories, the Puerto Rico Vocational Rehabilitation (PRVR) Program received federal funding of \$63,439,564 in Fiscal Year (FY) 2001.

Anticipated Objective:

1. To determine that the federal funds distributed to the PRVR Program were expended for intended grant purposes for FY 2001.

Government Performance and Results Act

The Government Performance and Results Act of 1993 (GPRA) is the centerpiece of a statutory framework that Congress put in place to improve federal management and provide a greater focus on results. GPRA requires that federal agencies prepare a five-year strategic plan and annual performance plans. GPRA also requires that federal agencies prepare annual performance reports. In addition, GPRA requires federal agencies to design a framework for the verification and validation of performance indicators.

Discretionary Grants Compliance with GPRA

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 1.1**

On May 30 2002, the Deputy Secretary issued guidance to Principal Offices on budget and performance integration. The guidance indicates that strengthening performance measures used to comply with GPRA will contribute to the integration of program performance and budget. The GPRA performance indicators should address the overall program goals and should be linked to the Principal Offices monitoring plans and application packages.

Anticipated Objectives:

1. Determine whether program offices included performance reporting requirements in grant application packages.
2. Determine whether grantees included required performance information in their grant application packages.
3. Determine whether grantee performance data was used by program offices to assess whether the goals of the grant were met.

Perkins III Performance Data

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 1.1**

Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins III) gave the states greater flexibility in designing programs and eliminated a number of state administrative requirements. In exchange for this increased flexibility, States are required to enter into agreements with the Secretary to achieve certain annual levels of performance with respect to “core indicators” set forth in the law. They are also required to issue annual reports on how their performance measured up to the agreed upon standards. An accurate assessment of whether or not performance measures are being met is vital at all levels—federal, state, and local—for ED to satisfy the Government Performance and Results Act (GPRA) requirement that it obtain quality data for all the performance indicators set forth in its strategic plan.

Anticipated Objectives:

1. Assess the Department's role and ability to ensure performance data received from the States is reliable, valid, and timely.
2. Evaluate the methods and systems local agencies are using to provide performance data to the States to determine if they support data reliability, validity, and timeliness.
3. Analyze the data requirements of the reports states are required to submit under Perkins III.

Contract and Grant Administration**Restricted Indirect Cost Rates****Goals/Issues Addressed:**

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

Some subgrantees of a state or local government agency, or a grantee under some direct grant program, must use a restricted indirect rate when charging indirect costs to a program. The restricted rate is computed based on a specific formula, or a rate of eight percent, whichever is less. Indirect costs that are not recovered as a result of these restrictions may not be charged directly, used to satisfy matching or cost-sharing requirements, or charged to another federal award.

Anticipated Objectives:

1. Determine how ED staff monitor indirect rates charged during the grant period and as part of the closeout procedures.
2. Determine whether appropriate restricted indirect rates are being used.

Monitoring of Grant Awards Lapsed Funds by the Department**Goals/Issues Addressed:**

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

The Department uses the Grants Administration and Payments System (GAPS) to account for grant award payments to state, local, and other entities. GAPS is one of the independent systems that comprise the Department's EDCAPS system for maintaining fiscal data over Department funds. Grant awards, drawdowns, adjustments, expenditures, non-liquidated

obligations, and outstanding balances are recorded on a grant-by-grant basis in GAPS. Grant activities including posting of authorizations, modifications, and closeout activities are also entered into the GAPS database.

The Tydings Amendment allows state-administered formula grant funds to be available to grantees for a 27-month period for obligation. After this period the funds are no longer available for obligation.

Anticipated Objectives:

1. Determine whether the Department has adequate procedures in place to monitor grant award payments to grantees and determine the Tydings period.
2. Identify instances where grant award periods have extended beyond the Tydings period and assess the actions taken by the Department.

Review of Puerto Rico Department of Education's (PRDE) Controls Over Property Purchased With Federal Funds

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.1**

During our audit work on PRDE's administration of various contracts, we noticed that the contractual agreements between PRDE and the contractors required the contractors to maintain in its files and submit to PRDE documentation related to property acquired with federal funds, including a physical inventory of the property. Upon requesting such documentation from PRDE, we found that PRDE did not have the records in its files. In addition, we found that some of the schools visited did not maintain inventory records. As a result, audit work needs to be done to determine whether PRDE maintains control over property purchased with ED funds.

Anticipated Objectives:

1. Determine if PRDE maintains adequate documentation and inventory control over equipment purchased with federal funds.
2. Determine if PRDE maintains a property management system that complies with federal property management requirements.

State and Local Financial Management

Accounting for Drug Control Funds

Fiscal Year 2003

Section 705(d) of The Office of National Drug Control Policy (ONDCP) Reauthorization Act of 1998 requires drug-control agencies to annually provide a detailed accounting and authentication of all funds expended on National Drug Control Program activities. The accounting and authentication will be conducted in accordance with ONDCP circulars. ED's Budget Service will prepare the accounting of drug control funds obligated by ED and will provide written assertions about the information contained in the report. The Office of Inspector General will perform procedures under the American Institute of Certified Public Accountants' attestation standards.

Anticipated Objectives:

The Office of Inspector General will express a conclusion about the following management assertions:

1. The methodology used to calculate obligations of prior year budgetary resources (including the data, estimation methods, completeness and financial systems) is reasonable and accurate.
2. The methodology disclosed by ED was the methodology used to generate the required table of information.
3. The data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes.

Pacific Islands

Fiscal year 2003

In August 2002, we visited the Pacific Islands (i.e. Marshall Islands, Federated State of Micronesia, Northern Marianas, and American Samoa) receiving federal education funds and determined that additional audit work is warranted. We will meet with the appropriate program staff to discuss the results of our visits and to develop audit objectives for work that will be performed during FY 2003.

FEDERAL STUDENT AID PROGRAMS

Institutional Audits

Selected Postsecondary Institutions

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.4**

Changes in technology, education costs, and amendments to the Higher Education Act (HEA) continuously affect how schools operate and relate to their students. To help assure integrity in the student financial assistance programs, we will focus our school audits on emerging and systemic areas of noncompliance and potential abuse. As we identify issues we will coordinate with Federal Student Aid (FSA), which is responsible for monitoring schools. After consultation, we will determine the best approach in identifying the extent of any abuses and any additional work necessary to assure the implementation of corrective actions. Specific areas of compliance that we anticipate covering in our postsecondary institutional audits include: the use of commissioned sales persons, the 90/10 revenue requirement, course length, and return of Title IV aid.

Anticipated Objectives:

1. Determine if selected schools are in compliance with current laws and regulations.
2. Alert the Department to any emerging and systemic areas of abuse and identify any additional oversight work needed for corrective actions.

Guaranty Agencies

Monitoring of Guaranty Agency Operating and Federal Fund Trends

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.4**

The 1998 amendments to the HEA required each guaranty agency to establish a Federal Fund and an Operating Fund within 60 days. The final date for establishing these funds was December 6, 1998. All funds, securities and other liquid assets of the guaranty agency's Federal Family Education Loan (FFEL) program reserve fund were to be transferred to the Federal Fund, which is the property of the Federal Government. The HEA required a guaranty agency to deposit revenue from specified sources into the Federal Fund and also specified the uses of Federal Fund assets. The HEA also specified deposits into the Operating Fund and the general uses of Operating Fund assets. Except for funds transferred from the Federal Fund, the Operating Fund is the property of the guaranty agency. If the Operating Fund contains funds transferred from the Federal

Fund, it may be used only as permitted by the regulations, which prohibit certain uses of reserve funds.

Anticipated Objectives:

1. Assess the adequacy of the Department's monitoring of the Operating and Federal Fund balances at the 36 guaranty agencies.
2. Assess the implications of any identified trends for the current guaranty agency funding model.
3. Determine if changes to the current legislation are needed.

Recall of Federal Funds Held by Guaranty Agencies

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.1**
- **Blueprint Goal: 1**
- **Department Challenges Issue: 1**

Section 6101 of the Balanced Budget Act of 1997 (Pub. L. 105-33) and Section 422 (h) of the HEA required the Secretary to recall \$1 billion in federal reserve funds held by guaranty agencies by September 1, 2002. The guaranty agencies were required to escrow specified amounts to be returned to the Department by September 1, 2002. The recalled funds will be deposited in the U.S. Treasury. Section 412 of the 1998 amendments to the HEA required the Department to recall an additional \$85 million in FY 2002, \$82.5 million in FY 2006, and \$82.5 million in FY 2007. As of March 2002, the Department has not provided instructions to the guaranty agencies regarding the process of returning the recalled funds to the Federal Government.

Anticipated Objectives:

1. Determine if the Department recalled \$1 billion and \$85 million in federal funds held by guaranty agencies and returned the funds to the U.S. Treasury during FY 2002, as required by the Balanced Budget Act of 1997 and the HEA.
2. Determine if the Department correctly allocated the recall amounts among the guaranty agencies.
3. Determine if the Department adequately monitored guaranty agencies to ensure they escrowed the appropriate amounts at the appropriate times.

Lenders/Services

Due Diligence by FFEL Lenders in Collecting Loans

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.4**

Lenders in the Federal Family Education Loan (FFEL) Program are required to follow due diligence requirements in 34 CFR § 682.411 when collecting on loans. Lenders are required to submit documentation that they have complied with these requirements when they submit their claims to guaranty agencies for defaulted loans.

ED Strategic Goal 6.4 seeks to modernize the federal student aid programs and reduce their high-risk status. One strategy for this objective is to “use new technologies and system integration...for...minimizing noncompliance and default rates...” If the due diligence requirements in regulations are not effective, and do not increase the likelihood of a borrower’s making a payment on a loan, they need to be changed.

Anticipated Objectives:

1. Review FFEL lenders’ compliance with due diligence requirements in 34 CFR § 682.411.
2. Determine whether the due diligence requirements in 34 CFR § 682.411 are an effective tool for avoiding default.

Distance Learning

Distance Education Demonstration Program

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

Increased access to advanced communications technology, specifically on the Internet, has given rise to rapid expansion in distance education. Distance education allows individuals to obtain education typically without regard to time or location limitations posed by traditional residential postsecondary education. It also provides the potential for institutions to increase their student enrollment significantly through recruitment nationwide. The Higher Education Act (HEA) places some restrictions on the use of federal financial aid funds for distance learning. Congress amended the HEA in October 1998 to include a demonstration program for distance learning. Institutions participating in the demonstration program can have certain regulations waived. In June 2001, the

Department selected 10 new projects for the Demonstration Program bringing the total number of participating institutions to 111.

Anticipated Objectives:

1. Evaluate the controls the Department has instituted to gather statistics and provide oversight of the growth of distance education and the amount of federal financial aid funds provided to support these programs.
2. Evaluate the Department's implementation of the distance education demonstration program.

Default Management

Definition Change of Default from 180 to 270 Days

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.1**

The 1998 Amendments to the Higher Education Act changed the definition of default from a delinquency that has persisted for 180 days to a delinquency of 270 days. The expanded definition provides lenders with more time to bring delinquent borrowers into repayment and thereby reduce defaults and reinsurance claims. This change affects the formula the Department uses to calculate a school's cohort default rate by reducing the number of borrowers defaulting in a two-year cohort period (the numerator). The number of borrowers who enter repayment (the denominator), however, remains the same.

Anticipated Objective:

1. Determine if the annual cohort default rates provide sufficient information on defaults in the Title IV programs.

FSA Contractor Reviews

Selected Federal Student Aid Contractors

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.1**

Federal Student Aid (FSA) has responsibility for overseeing more than 80% of the contract dollars awarded by the Department. At least a dozen major contractors assist in the delivery of FSA funds to intended recipients and collect, process and store data that FSA uses to help manage its programs. Our reviews will focus on the effectiveness of FSA's oversight of these contracts. The objectives of these reviews are to evaluate selected FSA contracts, including the monitoring efforts by FSA and contractor performance.

Anticipated Objectives:

1. Determine the effectiveness of oversight of selected FSA contracts by the contracting officer's representative and the contract officer to ensure that products and services are delivered and contract terms are met.
2. Determine the accuracy and reasonableness of costs incurred for products and services provided.

Guaranty Agency Collection Servicer Reviews

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.4**

Guaranty agencies contract with many different collection agencies and attorneys to collect on defaulted student loans. The oversight of the collection servicers varies by guaranty agency. Some guaranty agencies require payments to be deposited into a lock box under the control of the guaranty agency, while others rely on the collection servicer to deposit funds into the Federal Fund.

Anticipated Objectives:

1. Evaluate what procedures guaranty agencies have implemented to monitor the activities of collection servicers used to collect on defaulted loans.
2. Determine whether borrowers are only being assessed collection costs that are permitted and reasonable.

3. Assess whether all collections are being remitted to the guaranty agencies on a timely basis.

Program Integrity

Case Management and Oversight's Review of Postsecondary Institutions

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goals and Objectives: 5.2 and 6.4**

Case Management & Oversight (CMO) is the division within FSA responsible for monitoring postsecondary institutions' compliance with statutory and regulatory requirements for participation in the programs. CMO is also responsible for providing technical assistance to the institutions. During 2000 and 2001, the OIG issued several audit reports that cited CMO for a significant decrease in compliance monitoring and inconsistent resolution of identified instances of noncompliance by institutions.

The HEA requires the Secretary to provide for the conduct of program reviews on a systematic basis designed to include all institutions of higher education participating in FSA programs. Program reviews play an important role in protecting the interest of taxpayers and students by identifying institutions that are mismanaging FSA programs or not complying with Title IV requirements. A failure to: a) perform these reviews or b) to perform them in such a way that ensures compliance with program requirements, results in an increased risk of unidentified institution misuse of federal funds.

Anticipated Objectives:

1. Determine whether CMO's Risk Model is identifying most "at-risk" institutions.
2. Assess CMO's use of its Risk Model for monitoring institutions. Specifically, determine whether CMO is performing program reviews at institutions identified as high risk by their Risk Model.
3. Determine whether CMO is examining "problem areas" when conducting reviews, and whether they are identifying findings in these areas or providing technical assistance in lieu of a reporting the program as a finding.
4. Assess the balance between compliance reviews and technical assistance.
5. Determine if resolution decisions and follow up on enforcement actions such as return of funds and/ or payment of interest is being performed consistently across Case Team.

PLUS Loan Discharges

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.1**

PLUS loans, like other FFEL and Direct loans, are eligible for discharge if the borrower dies. PLUS loan borrowers are required to be either the parent (natural or adoptive) or stepparent of the student. We are not aware of any edits by lenders, servicers or financial aid officers to assure that the borrower is indeed the parent or stepparent.

Anticipated Objectives:

1. Identify any abuse in the PLUS loan program.
2. Determine if any additional edits by lenders or the Department are warranted.

Professional Judgment

Goals/Issues Addressed:

- **OIG Goals: 1 and 2**
- **Department Goal and Objectives: 6.1 and 6.4**
- **Blueprint Goals: 1 and 2**
- **Department Challenges Issues: 5 and 6**

HEA permits the use of “professional judgment” by financial aid advisors and schools when deciding how to treat a given student and determine his/her eligibility. FSA Case Management teams also use “professional judgment” when working with schools that may not be complying with HEA laws to determine their continued eligibility for participation in Title IV programs. While professional judgment provides for legitimate latitude, it may open the door to abuses.

Anticipated Objectives:

1. Determine whether FSA Case Management Teams have established guidelines for applying professional judgment, and whether similar cases throughout the country are handled consistently.
2. Identify whether patterns exist in the use of professional judgment by financial aid professionals/schools (e.g., by school type).

Address Match of FSA Recipients

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.4**

FSA programs continue to experience fraud by individuals applying for and receiving grants and loans in excess of annual limits. An address match would identify excessive occurrences of FSA awards to individuals using the same address. The FAFSA application requires the number and street in the address portion. Over the past several years, there has been growth in the number of private postal box businesses. These businesses receive mail like a U.S. Post Office box, but with a regular street address. Individuals with the intent to defraud the FSA programs could use these boxes as an avenue to receive checks.

Anticipated Objectives:

1. Identify addresses with excessive amounts of FSA awards mailed to them and analyze for reasonableness.
2. Identify schools for review that have a high number of applicants with the same address.

Citizenship Matches

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.4**

The Higher Education Act (HEA) specifies the categories of non-citizen applicants who are eligible for FSA. The Central Processor System (CPS) processes student applications and initially screens them for applicant eligibility. The contractor matches certain applicant-provided data against databases at four agencies. The CPS attempts to confirm eligible citizenship status through two matches with the Immigration and Naturalization Service (INS) and Social Security Administration (SSA). A potential issue may arise if the INS identifies too many records. This would increase the burden on students, schools, the Department, and the INS due to the manual process used to confirm citizenship status and financial aid eligibility.

Anticipated Objectives:

1. Determine if student aid has been awarded to ineligible non-citizens.
2. Determine if the INS match is identifying an excessive number of eligible non-citizens and creating unnecessary burden for students, schools, the Department, and the INS.

Citizenship of Parents Who Receive PLUS Loans**Goals/Issues Addressed:**

- **OIG Goal: 2**
- **Department Goal and Objective: 6.1**

A borrower must be a U.S. citizen or eligible non-citizen to receive a PLUS loan. While the citizenship status of students is verified by matching their Social Security number against data from the INS, the citizenship of parents who borrow through the PLUS program is not currently reviewed.

Anticipated Objectives:

1. Determine the extent PLUS loans are made to borrowers who fail to meet the required citizenship requirements.
2. Determine the amount of default claims and discharge amounts for PLUS loans among borrowers who are ineligible non-citizens.

Data Mining

Improper Payments in the FSA Programs**Goals/Issues Addressed:**

- **OIG Goal: 1**
- **Department Goal and Objective: 6.4**

OMB is requiring agencies to estimate improper payments for certain programs. This review will be designed to provide a valid statistical estimate of the amount of improper payments in the Federal Pell Grant program. This methodology may be used as a benchmark to statistically evaluate the extent of improper payments in other programs.

Anticipated Objective:

1. Determine if any Pell Grant payments are improper through sampling and audit testing.

Effectiveness of NSLDS Data Entry Edits

Goals/Issues Addressed:

- **OIG Goal: 1**
- **Department Goal and Objective: 6.4**

NSLDS, begun in 1994, is a mature source of data used for a multitude of purposes. Data is obtained from a number of sources: Guaranty Agencies, Pell, FDL, Schools, and Debt Collections. When data is loaded, certain edits are performed to identify bad data and/or other potential problems. Bad data must be identified for correction. At the same time, all loans/awards must be added to the database as soon as possible.

Anticipated Objectives:

1. Identify and evaluate the automated data entry edits for NSLDS.
2. Assess whether erroneous data exists in the database.

Controls Over FAFSAs

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.4**

The Free Application for Federal Student Aid (FAFSA) process has undergone significant changes in recent years such as the use of FAFSA on the Web. In past years, review of the FAFSA application files has shown individual SSN's with as many as 30 records in the file. This review will determine the significance of large numbers of multiple records and determine if they are indicative of fraud, abuse, or other management control weaknesses.

Anticipated Objectives:

1. Determine the effectiveness of management controls over accurate submissions and corrections of information.
2. Identify through analysis of the FAFSA file instances of possible abuse.

Comparison of FFEL and FAFSA Data

Goals/Issues Addressed:

- **OIG Goal: 2**
- **Department Goal and Objective: 6.4**

The FAFSA is the primary vehicle used by the Department to annually collect data on applicants desiring to obtain Title IV aid. Among other things, the FAFSA information is used by the Department (via the Central Processing System (CPS)) to determine a borrower's eligibility for Federal Family Education Loans (FFEL). Included in the FAFSA processing is a match of the applicant's SSN to the National Student Loan Data System (NSLDS) to identify prior loan defaults. OIG has identified loans that were approved and disbursed on an annual basis that did not have matching FAFSA records included in the CPS database.

Anticipated Objectives:

1. Identify the universe of FFEL loan records on NSLDS for a selected period that did not have matching FAFSA database records.
2. Identify the schools, lenders, and guarantors for the universe of loans without FAFSA records.
3. Select schools to ascertain the eligibility of borrowers with no FAFSA records.

APPENDIX

The President's Management Agenda
(Government-wide Initiatives)

Issue #1:

Strategic Management of Human Capital

Issue #2:

Competitive Sourcing

Issue #3:

Improved Financial Performance

Issue #4:

Expanded Electronic Government

Issue #5:

Budget and Performance Integration

The Secretary's Blueprint for Management Excellence

Goal #1:

Develop and Maintain Financial Integrity and Management and Internal Controls

Goal #2:

Modernize the Student Financial Assistance Programs and Reduce Their High-Risk Status

Goal #3:

Expand Strategies for Using Human Capital

Goal #4:

Manage Information Technology Systems to Improve Business and Communications Processes

Goal #5:

Achieve an "Accountability for Results" Culture

The Department's Strategic Plan

Goal One: Create a Culture of Achievement

- 1.1 Link federal education funding to accountability for results.
- 1.2 Increase flexibility and local control.
- 1.3 Increase information and options for parents.
- 1.4 Encourage the use of scientifically based methods within federal education programs.

Goal Two: Improve Student Achievement

- 2.1 Ensure that all students read on grade level by the third grade.
- 2.2 Improve mathematics and science achievement for all students.
- 2.3 Improve the performance of all high school students.
- 2.4 Improve teacher and principal quality.

Goal Three: Develop Safe Schools and Strong Characters

- 3.1 Ensure that our nation's schools are safe and drug-free and that students are free of alcohol, tobacco, and other drugs.
- 3.2 Promote strong character and citizenship among our nation's youth.

Goal Four: Transform Education into an Evidence-Based Field

- 4.1 Raise the quality of research funded or conducted by the Department.
- 4.2 Increase the relevance of our research in order to meet the needs of our customers.

Goal Five: Enhance the Quality of and Access to Postsecondary and Adult Education

- 5.1 Reduce the gaps in college access and completion among student populations differing by race/ethnicity, socioeconomic status, and disability while increasing the educational attainment of all.
- 5.2 Strengthen accountability of postsecondary institutions.
- 5.3 Establish effective funding mechanisms for postsecondary education.
- 5.4 Strengthen Historically Black Colleges and Universities, Hispanic Serving Institutions, and Tribal Colleges and Universities.
- 5.5 Enhance the literacy and employment skills of American adults.

Goal Six: Establish Management Excellence

- 6.1 Develop and maintain financial integrity and management and internal controls.
- 6.2 Improve the strategic management of the Department's human capital.

6.3 Manage information technology resources, using e-gov, to improve service for our customers and partners.

6.4 Modernize the Student Financial Assistance programs and reduce their high-risk status.

6.5 Achieve budget and performance integration to link funding decisions to results.

6.6 Leverage the contributions of community- and faith-based organizations to increase the effectiveness of Department programs.

6.7 By becoming a high performance, customer-focused organization, earn the President's Quality award.

Management Challenges of the Department of Education

Issue #1:

Correct long standing financial management problems

Issue #2:

Strengthen information technology security

Issue #3:

Improve internal controls

Issue #4:

Improve contract monitoring

Issue #5:

Balance compliance monitoring and technical assistance

Issue #6:

Meeting its goal of removing the student financial assistance programs from the General Accounting Office "high risk" list

Issue #7:

Pursue appropriate electronic government initiatives

Issue #8:

Improve strategic management of human capital

Issue #9:

Improve and test continuity of operations plans

Issue #10:

Improve management of IT assets

Issue #11:

Obtain reliable performance data and improve performance measures

OIG Strategic Goals

Goal 1:

To improve the Department's programs and operations

Goal 2:

To protect the integrity of the Department's programs and operations